

March 27, 1973

MEMORANDUM OF CONVERSATION

PARTICIPANTS:

Y. B. Chavan, Finance Minister of India
L. K. Jha, Ambassador of India
Henry A. Kissinger, Assistant to the President
Harold H. Saunders, NSC Staff

DATE AND PLACE:

Tuesday, March 27, at 2:30 p.m. in
Dr. Kissinger's office for 20 minutes

Dr. Kissinger expressed his pleasure in meeting the Finance Minister. He noted with a smile that finance is "not my best subject." Then he said, looking at Jha, that some people have said that foreign policy is "not always my best subject either." Chavan demurred. Dr. Kissinger indicated that Ambassador Jha "is the only person in Washington who handles the press better than I do." During the difficulties between India and the United States he could always tell where the stories were coming from, but there was nothing he could do about them. Seriously, Dr. Kissinger said that we in Washington are all very sorry to see Jha leave.

Minister Chavan said that Jha would be returning to India "to do a good job there." [Jha will be Governor of Kashmir.]

Dr. Kissinger said that Jha had been in Washington in a very difficult period. He had defended India's interest "with enormous ability."

Minister Chavan said that he had seen Secretary Shultz earlier and had made several points. He had noted to the Secretary that one of the major questions between India and the US now is the question of US holdings of rupees. He felt that it was good to start talks on this subject and noted that Ambassador Moynihan had already suggested that talks begin.

Ambassador Jha asked whether we had any specific ideas as to how we wish to handle these talks. Would we do it in Washington; would we send somebody to Delhi; or would we have our embassy handle it?

XGDS - 3

DECLAS - Date impossible to determine.

BYAUTH - Dr. Henry A. Kissinger

Dr. Kissinger asked what would be most efficient.

Finance Minister Chavan suggested sending someone at a high level who might make some decisions on the spot.

Dr. Kissinger asked whether the solution in the Saulnier Report would be acceptable to India.

Ambassador Jha said that India had never been shown the Saulnier Report, although Indians felt that Saulnier had understood their point of view.

Dr. Kissinger said that we could operate within the framework of the Saulnier study. He indicated that he had made a technical study of the issue. He felt, however, that we have no interest in holding a balance of rupees that would become a political issue.

Minister Chavan indicated that that is what is happening.

Chavan went on to say that a second issue he raised with Secretary Shultz had been the point that the Government of India does not want to keep its economic relationship with the US solely on an economic aid basis. It is useful to maintain contact on monetary issues such as has been the case in connection with activities of the Committee of 20. It is also important to consider what can be done in the field of trade. In the textile field, for instance, India is kept on the same level as Japan in terms of US import regulations. India feels that developing countries should be put on some sort of different basis.

Dr. Kissinger noted that the US textile lobby is very strong and very short-sighted. Ambassador Jha affirmed this. Jha continued by noting that India differed from Japan in that it does not export any synthetics and it concentrates in specialized areas.

Dr. Kissinger indicated that, on trade, we would be prepared to have serious discussions to see how trade might be stimulated. He asked what sort of mechanism Chavan had in mind for carrying on this dialogue. Did he see a special mechanism or did he foresee maintaining the discussions on an ad hoc basis?

Minister Chavan said that for the moment he felt it would be best to continue on an informal basis talking about issues as they come up.

SECRET [REDACTED]

Ambassador Jha said that he felt that the textile question was a specialized one. Some negotiations were coming up. If prior to those negotiations some people in the US textile industry could observe the Indian textile industry, he felt it would be possible.

Dr. Kissinger said that we would encourage a forward-looking approach. We in the White House will pay personal attention to this field.

Dr. Kissinger turned to the subject of aid. It is a complex problem how to continue or to start again in this relationship now that we have arrived at the point where we are. In principle, the US is interested in the favorable evolution of the Indian economy and want India to be economically stable. He noted that, in an earlier discussion with Ambassador Jha, he had talked about the possibility of our establishing a framework for phasing out aid over some period such as five years; or perhaps it would be possible to find some other framework for an economic assistance relationship that would have a new look.

Minister Chavan said that he felt that the major emphasis should be on the credit side rather than on aid. He felt that the major relationship would be US contributions through IDA. He also felt that US leadership in the World Bank Consortium was important.

Ambassador Jha interjected that the main point was that if the US were to pull out of the World Bank Consortium it would fall apart. One way of proceeding would be to work toward a period over the next five or six years where there would be no new net aid. At that point just enough new aid would be going to India to maintain a balance with Indian repayments. However, India would welcome US thoughts. The simplest way for the US to proceed might simply be to return to a normal role in the consortium. If one pursued this line of approach, a point would be reached in about five years where the balance would come to zero aid either way--that is, as much aid would be going into India as was necessary to repay former loans. At this point, debt rescheduling would become an essential element in the picture.

Dr. Kissinger said that we are prepared to work seriously at improving relations. Minister Chavan replied that he would convey this to Prime Minister Gandhi.

Minister Chavan continued by saying that sometimes small things make problems. He referred particularly to the US decision to renew arms supply to Pakistan. He noted that the Pakistanis now only have to defend half the territory they had before the 1971 war while India still has to

face both China and Pakistan. A decision such as the US had made creates pressure on the Indian Government not just from one party but from all parties across the political spectrum.

Dr. Kissinger noted that "you should have heard our Ambassador in New Delhi." We had to urge him to observe some restraint. The US decision has been a fulfillment of old commitments. "We have no intention of starting a pipeline of new military equipment to Pakistan." There is a situation in which India produces a substantial amount of military equipment for itself, and Pakistan produces very little. If one looks ahead, one must assume that the gap between the two will widen. Therefore, we are not narrowing the gap by what we have done. "Nor do we have any intention of extending credits or starting a new program." We understand India's feelings, but we note that India has handled the issue in a restrained manner.

Dr. Kissinger continued that we find it difficult to read certain things in the Indian press. For instance, last summer we heard over and over again that the purpose of the US was to wean Bangladesh away from India. US objectives in Bangladesh, Dr. Kissinger felt, are parallel to India's. While we did not agree with the methods used in achieving Bangladesh independence, our interest now is in a stable Bangladesh making reasonable progress. We do not see Bangladesh as part of a great power constellation. We are prepared to coordinate our aid to Bangladesh with India's if that seems desirable. Our feeling is that if a radical element were to take over in Bangladesh, it would have serious consequences in West Bengal. While US relations with the PRC are improving, we do not have the same interest as China's in Bangladesh.

Mr. Chavan indicated that India is taking many initiatives to solve the problems bilaterally--even with Pakistan. Indians interpreted the US decision on arms supply as disturbing the balance in that effort to solve problems on a bilateral basis. India wants normal relations with everyone.

Dr. Kissinger said that we support the bilateral solutions of South Asian problems. There is no US interest served by perpetuation of the Pakistani-Indian impasse. From a humanitarian point of view, the prisoners of war are a concern to us, especially because of our own recent experience on a much smaller scale.

SECRET

Dr. Kissinger noted that, during Pakistani Governor Khar's visit, we had recommended strongly to Pakistan that they recognize Bangladesh.

Minister Chavan responding to Dr. Kissinger's point on the prisoners, noted the numbers of Bengalees being held in Pakistan. Dr. Kissinger said that he understood that the Pakistanis were prepared to let them go.

Dr. Kissinger continued that we would not take an initiative on Indian-Pakistani problems. However, if it would help and if both sides asked us to, we would be prepared to make a proposal on the prisoners. However, we did not intend to get involved on our initiative.

Minister Chavan responded that that was a fair position.

Dr. Kissinger asked which job the Minister had found more interesting-- Defense or Finance.

Minister Chavan responded that he had also held the post as Home Minister and had not found it possible to compare any of the three jobs. They were so different. Dr. Kissinger noted that a former student of his at Harvard, L. P. Singh, had held the role of Secretary in the Home Ministry. Minister Chavan and Ambassador Jha noted that Singh was an excellent person. Dr. Kissinger noted he has many students and friends all over India from his Harvard days. He often receives letters from them when there are difficulties between India and the US.

Dr. Kissinger concluded that the principal reason he had wanted to see Minister Chavan was that Mr. Chavan is a senior member of the Indian Government and Dr. Kissinger wanted the opportunity to tell him directly that the US wants to improve its relations with India. He wanted Minister Chavan to know directly that the US recognizes India as a major country with which we want good relations.

Mr. Chavan said that he appreciated the opportunity to talk with Dr. Kissinger and said he would convey this to Prime Minister Gandhi.

Dr. Kissinger concluded by saying that he expected to be in close touch with Ambassador Kaul when he arrived. Ambassador Jha said that he would be leaving on April 12 and that Ambassador Kaul would be in Washington early in May.

Harold H. Saunders

UHSaunders.tmt 3/29/73